



# **Regional, Preferential, and Bilateral Trade Agreements**

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# Regional Agreements—Exception to WTO MFN

- WTO/GATT permits exceptions to MFN
  - **Enabling Clause:** Allows developed countries to give one-way preferences to developing countries; DCs may exchange almost any trade preference to which they mutually agree
  - **Article XXIV:** Allows two or more members to form an FTA or customs union under certain conditions
    - Covers almost all trade
    - External tariffs of member countries must not be raised
    - Incidence of common external tariff must not exceed that of individual tariffs of members prior to the agreement
  - **GATS:** Article V allows RTAs on trade in services



# Regional Agreements—Exception to WTO MFN

- WTO/GATT permits exceptions to MFN

**Enabling Clause:** Allows developed countries to give one-

**WTO also permits non-reciprocal preferential agreements that are not generally available to all DCs provided a waiver is sought (3/4 vote)**

**Examples: CBI, ATPA, CARIBCAN, Cotonou**

- incidence of common external tariff must not exceed that of individual tariffs of members prior to the agreement

— **GATS:** Article V allows RTAs on trade in services

# Agreements can be in various forms

- **Preferential Trade Agreements (PTAs)**

- GSP, AGOA, EBA, CBI

- **Bilateral Trade Agreements (BTAs)**

- U.S.-Israel, EU-Chile

- **Regional Trade Agreements (RTAs)**

- EU, NAFTA, MERCOSUR, COMESA, AFTA, Andean Community, CARICOM, CACM

*Remember, WTO also has plurilateral agreements: government procurement and trade in civil aircraft*

# Preferential trade agreements

- **Common Characteristics**—non-reciprocal, non-mandatory and non-binding.
- **Generalized System of Preferences (GSP)**—United States and others provide non-discriminatory duty-free treatment to developing countries.
- **African Growth and Opportunity Act (AGOA)**—U.S. program providing duty-free access for over 1,800 tariff lines (214 not in GSP, including footwear, luggage, handbags) to sub-Saharan Africa.
- **CBI and ATPA**—US. programs designed to give Caribbean and Andean duty-free access for most goods, preferential quotas for textiles/apparel.
- **Everything But Arms**—EU program for LDCs; provides immediate duty/quota-free access for all items except arms, ammunition, bananas, rice, and sugar.





# PTAs and Textiles/Apparel

- Have encouraged apparel production in beneficiary countries
  - Preferential access to U.S. textile/apparel quotas
- Will be less important to investor decisions in coming years, with phase-out of textile/apparel quotas
  - Tariff preferences remain, but are less important than quotas
- Benefits may be insufficient to offset lower production costs of Asian competitors
  - China/Taiwan accession to the WTO
- Benefits in LAC region may not measure up to those given to African countries
  - African Growth and Opportunity Act
- Are no substitute for measures to improve production efficiency, lower costs, diversify manufactures



# Bilateral agreements

- EU has taken the lead in bilateral agreements; has signed or is in negotiations with more than 40 countries.
- United States has taken an interest
  - U.S.-Israel (1985)
  - U.S.-Canada (1989)
  - U.S.-Jordan (2001)
- U.S. negotiating with Singapore and Chile, expected to conclude this year. Has expressed intent to proceed with Morocco; considering Australia and New Zealand, respectively.
- Coverage varies from goods-only to services, investment, IPR, labor, and environment.
- Motives often related more to political than economic considerations.



# Regional trade agreements

- High concentration in the Western Hemisphere
  - Andean Community, CACM, CARICOM, CARICOM-Dominican Republic, G3, MERCOSUR, Mexico-Northern Triangle, NAFTA
- The rest of the world
  - ANCERTA, ASEAN, Common Market for Eastern and Southern Africa, EU, Euro-Maghreb, SADC
- Major developments in RTAs
  - Deep integration
  - The advent of RTAs: both developed and developing countries are equal partners in agreements

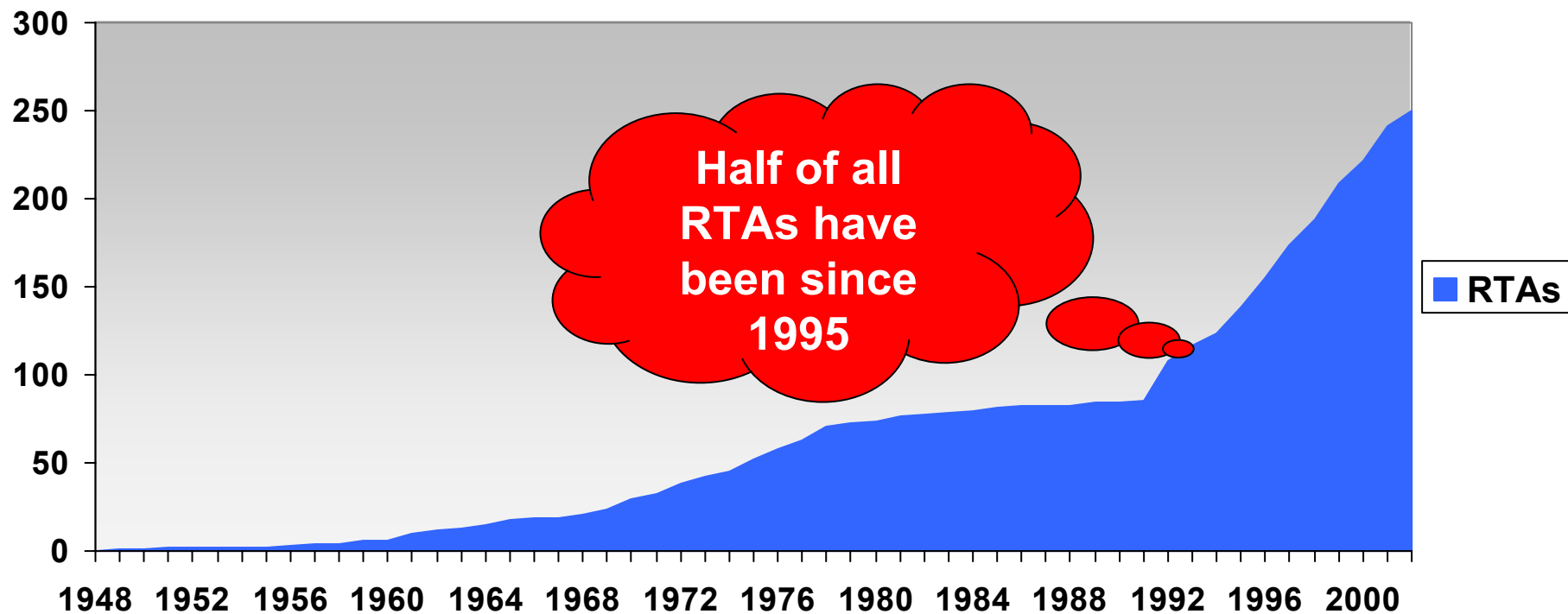


# Regional integration levels

Levels of Integration	No tariffs on intraregional trade	No tariffs on intraregional trade and common external tariffs	Free movement of labor & capital	Coordination of economic policies & harmonization of standards
Free Trade Area	■			
Customs Union	■	■		
Common Market	■	■	■	
Economic Union	■	■	■	■

# RTAs have taken off

RTAs Notified to GATT/WTO - 1948-2002

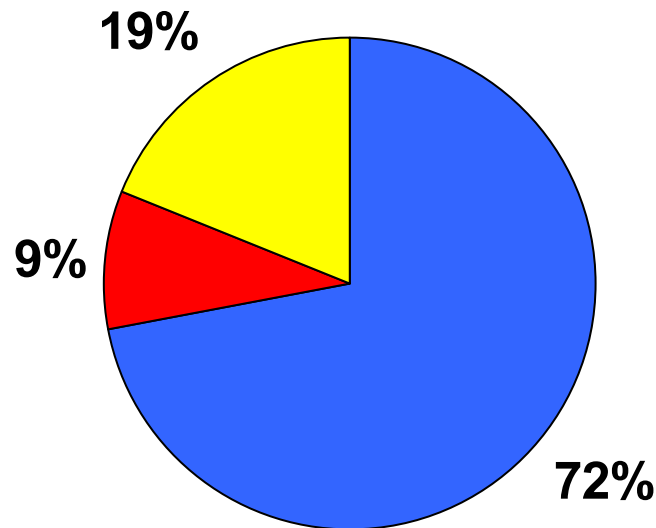


Source: WTO



# FTAs most prevalent type of RTA

RTAs by Type, March 2002



■ FTA ■ Customs Union ■ Partial Scope

Source: WTO



# RTAs—Pluses and minuses

- Economic benefits
  - TRADE CREATION
  - Increased returns from larger market size and scale
  - More attractive to FDI
  - Lower prices due to tariff elimination and trade creation
  - Increased efficiency from increased competition
- Economic costs
  - TRADE DIVERSION
  - Prices may rise if tariff cut is absorbed in profits
  - Proliferation of new, complex, and difficult-to-administer rules
  - Loss of government revenue
  - Relocation of existing activity in the RTA



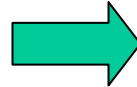
# RTAs—Pluses and minuses (continued)

- Non-economic benefits of RTAs
  - Faster liberalization
  - More certain liberalization (“locking in reforms”)
  - Greater security and stability
  - Increased bargaining power in international negotiations



# A Contrast

## OLD GENERATION RTAS



## NEW GENERATION RTAS

- Used to support import substitution-based industrialization
- Limited sectoral and policy coverage
- Non-compliance with obligations
- Macroeconomic instability
- Lack of political commitment
- Weak secretariats; limited private sector role

- Stronger commitments towards boosting international trade
- More realistic goals
- Comprehensive coverage in nature
- Dispute settlement
- High political commitments
- Strengthened institutions

# Building blocks or stumbling blocks?

- Have RTAs helped multilateral trade?
  - On balance, yes. They have fostered trade liberalization and (in some cases) served as models for WTO.
- Has regionalism been more efficient?
  - No single answer; must examine different agreements.
  - EU—agriculture clearly diversionary and has been an impediment to global liberalization, but EU also has raised incomes in poorer countries.
- Has regionalism been more certain?
  - Multilateralism has been more stable; all rounds have been implemented.
  - Many RTAs have failed (e.g. LAFTA) or scaled back (e.g. AFTA) due to political pressures.



# Toward an FTAA

**OBJECTIVE:** to  
create an area free  
of barriers to trade  
and investment

**DEADLINE:** 2005

**MARKET:**

**GDP = \$11 trillion**

**Population: 800  
million**

**Trade \$3 trillion**



# FTAA principles

- Consensus
- Transparency
- Consistency with the WTO
- Single Undertaking
- Coexistence with subregional agreements
- Attention to the needs of smaller economies
- Countries can negotiate and implement individually or as part of a subregional integration arrangement



# Results of Quito Ministerial

- Mandate to Negotiating Groups to develop work programs consistent with the timetables for the exchange of initial offers established by the Trade Negotiations Committee (TNC).
  - The timetables for negotiations
    - Initial offers: 13 Dec. 2002-15. Feb. 2003
    - Review of offers and submission of requests: 16 Feb. 2003-15 Jun. 2003
    - Presentation of revised offers and subsequent negotiations on improvement - as of 16 Jun. 2003.
- Mandate to TNC, the Negotiating Groups, and the Technical Committee on Institutional Issues (TCI) to achieve consensus in each of the draft chapters of the FTAA Agreement.





# Results of Quito Ministerial (continued)

- Mandate to the TNC to provide guidance on the methods and modalities for the negotiations.
- Mandate to the TNC and other FTAA entities to take into account the capacity, concerns, and interests of the participating countries, including the differences in the levels of development and size of the economies.
- Approval of the Hemispheric Cooperation Program as a priority of all member governments.
- Agree to publish the second draft of the FTAA Agreement on the official FTAA website ([www.ftaa-alca.org](http://www.ftaa-alca.org)).



# Group on smaller economies— Main capacity building outputs

- **Studies**—on issues of concern to smaller economies (characteristics and vulnerabilities of small economies, competitiveness, SMEs, fiscal impacts).
- **Technical assistance database**—country TA needs; National TA contact point; donor profiles; published in FTAA website; online updating.
- **Meetings with donors**
- **Hemispheric cooperation program**—all of the above was a process of learning that came to fruition in the development of this concept and program.



# FTAA Hemispheric Cooperation Program

- Principles
  - A central element of support for the FTAA
  - Conceived in the context of national development and strategies and part of an agenda for economic growth and development and poverty reduction
- Objectives
  - Strengthen the capacity of countries to implement and participate fully in the FTAA
  - Promote greater interrelationship between development and trade liberalization.
  - Increase coordination among donors and between donors and recipients



# FTAA Hemispheric Cooperation Program (continued)

- HCP to be funded by
  - Donors (e.g. USAID)
  - Regional and multilateral financial development institutions (e.g. IDB)
  - Foundations and other organizations

# FTAA Hemispheric Cooperation Program (continued)

- National strategies to be developed by
  - Countries participating in the FTAA and their cooperation agencies
  - Tripartite committee: OAS, IDB, & ECLAC
  - Academic institutions
  - Private sector entities



# OAS Trade Unit capacity building activities

## 1. Training

- Advanced Training Course for Government Officials (with WTO and Georgetown University) > 250 graduates; CSIS Eval.
- Specialized workshops and seminars
- Development of training materials
- Partnership with local training institutions

## 2. Transparency and trade education via information technologies

- SICE Web Page ([www.sice.oas.org](http://www.sice.oas.org))
- Official FTAA Web Page - jointly with TPC
- Inventories of trade laws and regulations
- Trade Education Database - in Official FTAA Web Page
- A Trade-Related Technical Assistance Database – built and maintained as part of the support to the CGSE
- Advanced Training Course alumni Web Site
- NetAmericas Web Site ([www.NetAmericas.net](http://www.NetAmericas.net))



# **OAS Trade Unit capacity building activities (continued)**

## **3. Networking with academic communities—NetAmericas**

- Enhance transparency and connectivity among academic communities in the area of trade and integration
- Promote exchange of information on existing trade-related research projects and their findings
- Encourage research
- Web page
- Conferences: “Integrating the Americas”, Nov 20-21, 2002.

## **4. Research and publications (books, Trade Unit studies series, training materials)**

## **5. Outreach and public speaking at civil society events and conferences**



# IDB capacity building activities

- Trade Capacity Loans—to support the strengthening of foreign trade systems (Up to US\$ 5 million).
- Regional technical cooperation
  - Approximately US\$10 million annually earmarked, non-reimbursable, e.g. PPP, IIRSA.
  - Administrative support: for regional programming and research
- National technical cooperation—Relatively less developed countries have access to non-reimbursable national technical cooperation funds.
- Multilateral Investment Fund (MIF)—Private sector regulatory frameworks and administrative systems
- Inter-American Investment Corporation (IIC)—Private sector project financing



# ECLAC capacity building activities

- Training activities via workshops, courses and documents in the following areas:
  - Statistics: UN concepts and definitions
  - Trade and trade policies
  - Finance
  - Productivity and management: industrial organization, FDI, agricultural issues.
  - Natural resources and infrastructure (e.g., energy and water services regulations)